



## **Privatizing Social Security: Benefit Cuts and Debt for Our *Familias***

# Privatizing Social Security: Benefit Cuts and Debt for Our *Familias*

Social Security, which celebrates its seventieth anniversary this year, is regarded by many as the most successful domestic program in our nation's history. Social Security has provided guaranteed retirement security for generations of Americans and protected the American dream for millions of families. Unlike individual private retirement plans, however, Social Security also provides financial security and insurance to spouses and dependent children in the event of a worker's disability or death.

Hispanic Americans greatly benefit from the current Social Security system:

- Hispanics have lower earnings and benefit from Social Security's "progressive" benefits;
- Hispanics live longer and receive greater benefits during longer retirements;
- Hispanics have a higher disability rate and rely on disability benefits more often;
- Hispanics are less likely to have additional sources of retirement income; and
- Without Social Security, 56 percent of Hispanic seniors would live in poverty.

Democrats are committed to strengthening Social Security and ensuring that Social Security will be there for our children and grandchildren. Democrats believe that it should be done right by first doing no harm, encouraging greater savings, and paying Social Security back what it's owed.

Unfortunately, rather than addressing these challenges, President Bush's privatization plan would make matters worse by cutting Social Security benefits and increasing the national debt by nearly \$5 trillion.

## Social Security's Tradition of Protecting Families

**SOCIAL SECURITY LIFTS MILLIONS OUT OF POVERTY.** The Social Security Act was signed into law by President Franklin D. Roosevelt on August 14, 1935. Since then, Social Security has provided a basic level of financial security for every worker who retires and kept tens of millions of Americans from falling into poverty. In 1959, 35.2 percent of Americans over the age of 65 were living in poverty. In 2003, only 10.2 percent of Americans over the age of 65 were living below the poverty line. Without Social Security, about 49 percent of the nation's elderly, and 56 percent of Hispanic seniors, would be in poverty. (U.S. Census Bureau, "Poverty Status of People, by Age, Race, and Hispanic Origin: 1959 to 2003"; Social Security Administration, "Minorities and Social Security: An Analysis of Racial and Ethnic Differences in the Current Program," 1999)

**SOCIAL SECURITY PROVIDES PROGRESSIVE BENEFITS.** The Social Security system is funded primarily by payroll taxes paid by workers and their employers. How much a worker and his or her employee pay into the system determines how much a worker will receive in benefits later on. While high-wage earners collect more benefits than lower-wage earners, low- and moderate-wage earners receive a larger percentage of their pre-retirement earnings in benefits due to Social Security's progressive benefit structure. (Social Security Administration, "The Future of Social Security," May 2004)

**SOCIAL SECURITY PROVIDES A CRUCIAL SAFETY NET TO MILLIONS OF FAMILIES.** Typically associated with retirement, Social Security is actually a comprehensive

family insurance plan that protects families of deceased workers, families of disabled workers, and retirees from poverty. More than 156 million workers are covered under Social Security and approximately 47 million Americans, including 3 million under age 18, currently receive Social Security benefits. (Social Security Administration, “Young People and Social Security,” September 2004, “The Future of Social Security,” May 2004):

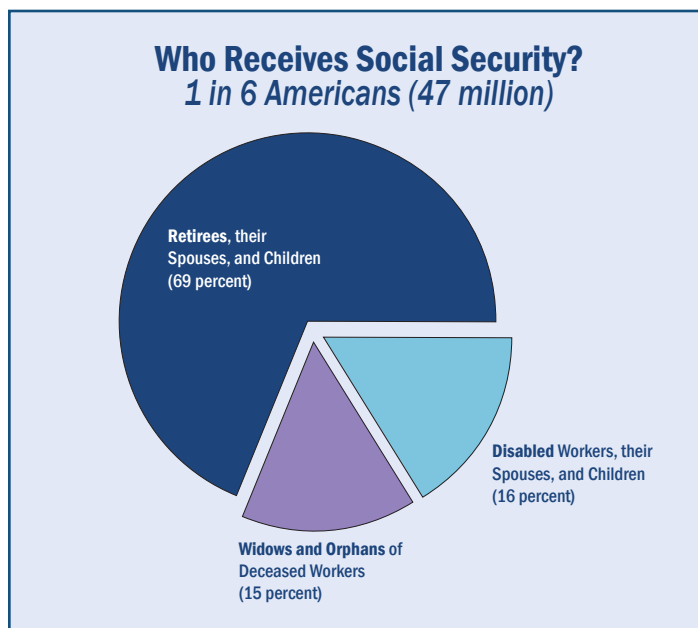
- 69 percent are retired workers and their dependents;
- 16 percent are disabled workers and their dependents; and
- 15 percent are survivors of deceased workers.

## Bush's Privatization Plan Will Cut Benefits and Increase the Debt

**BUSH PLANS TO CUT GUARANTEED SOCIAL SECURITY BENEFITS.** The Bush plan will cut benefits by tying benefits to the rise of inflation instead of wage increases, meaning that seniors would not share in our nation's rising standard of living. Bush advisor Peter Wehner writes, “We simply cannot solve the Social Security problem with Personal Retirement Accounts alone ... to wholly ignore the matter of the current system's benefit formula — would be irresponsible.” (Memo on Social Security, Peter H. Wehner, Published in the Wall Street Journal, 1/5/05)

**BUSH'S PLAN WILL CUT BENEFITS BY 45 PERCENT OR MORE FOR SENIORS.** The Bush plan will reduce benefits for all seniors, even those who choose not to invest in privatized accounts. According to the Congressional Budget Office, “benefits for the 1980s birth cohort would be...30 percent lower...and benefits for the 2000s cohort would be...45 percent lower.” (CBO, “Long-term Analysis of Plan 2 of the President's Commission to Strengthen Social Security,” 7/21/2004)

**BUSH'S PRIVATIZED ACCOUNTS IN SOCIAL SECURITY INCLUDE A TAX ON BENEFITS.** A Senior Administration Official (who was not identified by name) briefed reporters before the President's State of the Union Address and described this privatization tax as follows: “... in return for the opportunity to get the benefits from the personal account, the person foregoes a certain amount of benefits from the traditional system.



Now, the way that election is structured, the person comes out ahead if their personal account exceeds a 3 percent real rate of return, which is the rate of return that the trust fund bonds receive. So, basically, the net effect on an individual's benefits would be zero if his personal account earned a 3 percent real rate of return.” (White House Office of the Press Secretary, Background Press Briefing on Social Security, 2/2/05)

**REPUBLICAN PRIVATIZATION PLAN WOULD COST NEARLY \$5 TRILLION.** The Senior Administration Official who briefed the press on the President's plan also stated that the plan would cost \$754 billion over ten years. However, according to the Center on Budget and Policy Priorities: “These figures are misleadingly low. They are generated by using a ten-year budget window (2006-2015) that includes only five years of the fully phased-in plan. The plan would not be launched until 2009 and not be in full effect until 2011. Over the first ten years that the plan actually was in effect (2009-18), it would add about \$1.4 trillion to the debt. Over the next ten years (2019-28), it would add about \$3.5 trillion more to the debt. All told, the plan would add \$4.9 trillion (14 percent of GDP in 2028) to the debt over its first 20 years.” (New York Times, “A Plan for Social Security: Some Questions and Answers...Described by a White House Official,” 2/2/05; Center on Budget and Policy Priorities, “An Overview of Issues Raised by the Administration's Social Security Plan,” 2/7/05)

## **Bush's Privatization Plan Will Hurt Hispanic Families**

**HISPANICS HAVE LOWER EARNINGS AND RELY ON "PROGRESSIVE" BENEFIT FORMULA.** Lower-income workers receive a higher percentage of their earnings in Social Security benefits after they exit the workforce than higher-income workers. Lower-income working males receive a 6.17 percent rate of return in Social Security net benefits, while their higher-income working male counterparts only receive 5.04 percent rate of return. Lower-income working women receive a 9.19 percent rate of return compared with only a 6.12 percent rate of return for higher-income working women. (U.S. Treasury Department, "Progressive Returns to Social Security? An Answer from Social Security Records," November 1995)

**HISPANICS LIVE LONGER AND HAVE LONGER RETIREMENTS.** Social Security benefits increase each year to address increased expenses, known as COLA (cost-of-living-adjustment) increases. As of 2004, Hispanics were, on average, living 3 to 4 years longer than non-Hispanic Americans. Therefore, on average, Hispanics receive more in Social Security benefits because of the guaranteed benefit for workers and their spouses. (Social Security Administration, "Hispanic Americans and Social Security," September 2004)

**HISPANICS HAVE A HIGHER DISABILITY RATE AND CANNOT ALWAYS PLAN WHEN THEY WILL EXIT WORK FORCE.** According the U.S. Census Bureau, the overall disability rate for American workers in 2000 was 11.9 percent while the disability rate for Hispanic workers was 16.7 percent. The Government Accounting

Office (GAO) found that, "In the aggregate, blacks and Hispanics have higher disability rates and lower lifetime earnings, and thus as a group tend to receive greater benefits relative to taxes than whites." (U.S. Census, Disability Status 2000, March 2003; The Center for American Progress, "How Social Security Benefits the Latino Community," 8/13/04; GAO, "Social Security and Minorities," April 2003)

### **HISPANICS ARE LESS LIKELY TO RECEIVE ADDITIONAL SOURCES OF RETIREMENT INCOME:**

- 41 percent of Hispanics rely on Social Security as their only source of retirement income. (Social Security Administration, "Hispanic Americans and Social Security," September 2004)
- 76 percent of all Hispanics over the age of 65 rely on Social Security benefits for 50 percent or more of their total income while nearly half rely on Social Security for 90 percent or more. (AARP Public Policy Institute, September 2003)
- 85 percent of Hispanics over the age of 65 receive no income from private pensions and annuities, and 72 percent receive no income from assets. (Social Security Administration, "Income of Population 55 or Older," 2000)

**WITHOUT SOCIAL SECURITY, POVERTY RATE OF HISPANICS WOULD INCREASE DRAMATICALLY.** According to the Social Security Administration, without Social Security 56 percent of Hispanics seniors would be in poverty. (Social Security Administration, "Minorities and Social Security: An Analysis of Racial and Ethnic Differences in the Current Program," 1999)

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